Volume I
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# REPORT OF THE AD HOC COMMITTEE ON CITY FINANCES

# REPORT OF THE

# AD HOC COMMITTEE

# ON CITY FINANCES

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# *MAYOR BRADLEY'S INSTRUCTIONS AND CHARGE ESTABLISHING AN AD HOC COMMITTEE ON CITY FINANCES*

*If we are to avoid the devastating financial crises which now threaten the survival of many cities, it is necessary that we undertake an assessment of the economic health of the City of Los Angeles. Present and future public service needs of our citizens require that we plan now to ensure that we find the means to finance the costs of necessary programs and services.*

*I have appointed an Ad Hoc Committee on City Finances to conduct an intensive evaluation of the City's economic health and revenue structure. Members of this expert independent group include leading Los Angeles specialists of national reputation in the fields of public and private finance, business administration, and law.*

*The Committee is charged with reporting its findings and recommendations to me, within 90 days. I am asking this select group in its examination of the revenue structure of the City, to pay special attention to the incidence of city taxes, fees, and charges; the impact of the city, state, and federal tax policies, and to evaluate new or alternative sources of revenue which may be available to the City.*

*It is my hope that the Committee will give great emphasis to the identification of specific mechanisms, powers, and organizational innovations for grappling with our difficult revenue problem in such a way as to preserve the stability and independence of our city government against the crippling crises and bankruptcies which may face other cities.*

*All cooperation of all related boards, officers, departments, and bureaus is hereby requested in order that this Committee may discharge its important responsibilities most expeditiously.*

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# ON CITY FINANCES

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## *FORWARD*

*The first meeting of the Mayor's Ad Hoc Committee on City Finances was held on Wednesday, October 15, 1975. Following an explanation of the Committee's charge by Mayor Bradley and brief comments by Dr. C. Erwin Piper, City Administrative Officer, the Committee turned to the task of organizing itself to respond to the Mayor.*

*Recognizing the complexity of the task it has been assigned, the Committee adopted an organizational structure composed of four subcommittees charged with the following responsibilities:*

*Subcommittee on National Municipal Financial Crises*

*Review of the circumstances surrounding New York City fiscal crisis, as well as the economic health of other major cities in the United States. It will attempt to identify practices, policies, and events contributing to such crises.*

*Subcommittee on the Economic Health of Los Angeles*

*Report on the state of the local economy, including an assessment of business activity, employment, investment, and any other factors affecting the economic health of the City.*

*Subcommittee on City Revenues*

*Review current revenue sources used to finance the annual City budget, comment on the impact of present revenue policies and all segments of the community, note problem areas associated with present practices and identify possible sources new of revenue which might be utilized by the City.*

*Subcommittee on City Expenditures*

*Review the nature and type of all City expenditures, giving particular attention to the City Charter requirements for the payment of prevailing wages and also to other major factors which influence the size and level of the City budget.*

*Membership of the subcommittees is set forth in the attached organization chart.*

*The subcommittees began work immediately holding frequent meetings to review and discuss pertinent data.*

*The subcommittee on the National Municipal Financial Crisis reviewed numerous reports of governmental agencies as well as articles in the media concerning the New York dilemma and the condition of other large municipalities. Also, a cursory review was made of New York City budgeting and financial documents. In addition to the efforts of the subcommittee members themselves, additional staff assistance was*

provided by the Pacific Lighting Corporation, Bank of America, and Price Waterhouse & Company.

The subcommittee on Economic Health made extensive use of the resources of the UCLA Graduate School of Management as well as receiving valuable staff assistance from the firm of Gibson, Dunn and Crutcher.

The subcommittee on City Revenues met frequently to review revenue trends and problem areas and investigated numerous revenue possibilities. Interviews were held with various City officials and members of the Council's Revenue and Finance Committee were invited to contribute their points of view in this difficult area. Valuable staff assistance was provided by the TI Corporation.

The subcommittee on City expenditures undertook a comprehensive review of the expenditure trends, the City's budget process and management structure. It had the benefit of extensive consulting resources which were provided by its members as well as by UCLA, Bank of America, Security Pacific National Bank, Pacific Mutual Life Insurance Company,

and Ernst & Ernst. As a consequence, the subcommittee has prepared a comprehensive report on these as well as other issues.

As a result of the combined efforts outlined above, the Committee has assembled several hundred pages of findings, observation, exhibits, and other supporting material. Because of the magnitude and complexity of much of the data we have decided not to incorporate it into our final report. Rather we have chosen to issue our report in a more abbreviated format in an attempt to communicate the essence of our findings without overwhelming the reader. Recognizing that there may be a desire on the part of many to pursue various matters in more detail, a comprehensive collection of supporting material will be made available for use by the City.

The following summary of conclusions as well as chapters outlining findings of the various subcommittees reflect an effort to present a frank and candid statement of the committee in response to the Mayor's charge. We hope the report will be useful in helping the City government respond to the financial challenges of the coming years.

## *SUMMARY AND RECOMMENDATIONS*

*Responding to the challenge posed by the Charge of Mayor Bradley, the Committee has concluded that the City has a serious financial problem. Los Angeles is not on the verge of a New York-type fiscal catastrophe, but mounting problems of the inner city and the growing disparity between expenditures and revenues clearly demonstrate severe financial problems ahead. One cannot overlook the fact that, in the 1975-76 budget, deficit financing was avoided only by using over two-thirds of the City's accumulated reserve fund.*

*The problems of Los Angeles City are far deeper than an annual concentrated effort to bring expenditures into line with revenues. Los Angeles is a mature city, possibly even an aging city, with large inner city problems. When businesses leave the city, job holders go with them. When the well-to-do and middle classes move to the suburbs, their places are taken by the less affluent, possessing lower skills and less education. As the tax base of the city declines, the need increases for vastly higher levels of services, such as*

police, fire, welfare and health. Indeed, many efforts to reverse the trend become self-defeating; higher taxes to provide an increased level of service only hastens the flight of businesses and the more mobile families to areas where the tax burden is less.

The actions of the City officials alone cannot solve the problems. Many expenditures are dictated by state or federal requirements. The City's ability to raise revenue is tightly controlled by state laws which limit or prohibit the imposition of certain taxes. Many problems, such as air pollution and rapid transit, transcend city boundaries and call for intergovernmental solutions. The private sector must be encouraged to become a responsible partner in seeking solutions. City officials must become leaders in the effort to secure county, state, federal and private sector involvement in delineation of the problems and the search for solutions.

In making its study, the Committee carefully considered the New York situation and compared it with Los Angeles. Obviously, there are many differences,

*not only in the basic structure of the two cities, but also in their demographics and general economic configuration. As will be seen from the detailed reports of our studies of New York and Los Angeles, our City does not face the same crises as New York. But we do face a very serious situation and one which, if not attended to promptly, will progressively deteriorate and become nearly impossible of solution.*

*It is a matter of semantics to debate whether we are in a crisis or there is one immediately ahead. The plain truth is that the forthcoming years will bring a fiscal crunch much tighter than any in the past decade or two, and that decisions far more difficult than any in recent years will have to be made in the areas of reduced services, decreased city employment and lowered wage expectations if additional taxation is to be avoided. And even additional taxation, to the extent that it encourages further migration of business, industry and well-to-do families, will create more problems than it will solve.*

*Because of this, the Committee's sincere hope is that elected City officials will find the report worthy of*

*prompt action. Failure to do so can only result in a worsening condition, leading to the same type of fiscal problems now facing New York.*

*It is in the framework of the foregoing, and with a real sense of urgency, that the Committee makes the following recommendations:*

1. *The Committee recommends the enlargement and expansion of the Office of Economic Development, with appropriate staff; (a) to study in depth the net movement of people and jobs into and out of Los Angeles, and the reasons therefor; (b) to report on the long-term growth prospects of the City in such terms as jobs, population, transportation, income, ethnic mix, and education; (c) to work with representatives of the private sector, federal, state, and county government, and the school district to conserve and develop the physical resources and economic base of the City and increase access to employment for its residents.*

*The claim is made, with increasing frequency, that Los Angeles is no longer a desirable city in which to locate a business. Since population has stabilized, and even suffered a decline in some years, it is obvious that the City is not as attractive to new residents as it once was. We*

need an action program to reverse the trend. Many businesses are moving out, but others are being established within the City limits. Is there a net flow - or outflow? The level of taxation is a factor. Is it major - or minor? What about transportation, schools? Many factors combine to determine the attractiveness of a city to business and residents. Facts are hard to come by. Before the City can successfully plan its future, it must know.

> 2. The Committee urges the Mayor and City Council to direct the CAO to develop five year fiscal forecasts, as a basis for annual budget and program making. The forecasts must be more than simple projections of revenues and expenditures; they must anticipate the revenue base and service needs of the City from information developed in (1) above.

A city without a forward plan is a rudderless ship upon a stormy sea, buffeted by the winds of fiscal chance. Programs are started or stopped, expanded or contracted, depending solely upon the revenue projections for the ensuing 12 months. There could be year-to-year delays in commencing a program, the ultimate need for

*which could be clearly seen in a five year forecast. On the other hand, a vocal few may bring pressure for an activity, which a five year plan would show to be clearly unaffordable. The projection must not be a one-time study, placed upon a shelf to gather dust, but must be updated annually.*

> 3. *The Committee recommends a clear, concise budget supplement, with explanations of revenues, expenditures, deficits or surpluses, borrowings, five year forecasts and similar information be printed and made widely available to interested citizens.*

*The City produces a mass of fiscal data and trained budget analysts find their way through it with ease. But to the average citizen, trying to understand his city's finances, it is a nearly impenetrable maze. Some cities produce excellent summaries, which could serve as models for Los Angeles. An informed citizenry is essential if the fiscal health of Los Angeles is to be maintained.*

> 4. *The Committee recommends that intensive effort, over and above that presently being made, be undertaken to measure, and increase, productivity*

*of City employees, and that productivity increases be made a consideration at the bargaining table when wage increases are negotiated.*

*In part because of the nature of their tasks, the productivity of government workers is extremely difficult to measure. The City has taken substantial steps in the direction of measuring such productivity and is to be commended for its initiative. However, much more needs to be done. Further, only limited steps have been taken to apply the information already obtained to negotiations at the bargaining table. A share of the increases won by non-governmental workers has been based upon their increase in productivity. Government workers expect their wages to rise in step with workers in business and industry, but many observers feel productivity in government has not kept pace.*

5. *The Committee recommends the purpose and use of the Reserve Fund be defined and clarified, and that the Mayor and Council consider the advisability of establishing an appropriate cash reserve or contingency fund to provide for such items as self insurance and contingent liabilities.*

*The present use of the Reserve Fund is not clearly stated and certainly not easily understood. Over two-thirds*

*of the fund was utilized in the current year to bring about a balance between revenues and expenditures. The City is self-insured; any substantial adverse court decision would need to be met, and in years in which the Reserve Fund has been otherwise committed, funds would not be available. The Mayor and Council should determine a prudent and adequate amount to cover the City's potential needs for self insurance and contingent liabilities, and that amount should be set up on a cash reserve basis with sufficient money budgeted in the following year to replace any withdrawals.*

> 6. *The Committee recommends that the City tighten up on the application, acceptance and administration of grants; that the financial statements of the City and budget summary recommended in (3) above clearly show the City's reliance upon grants; and we further recommend that the Mayor and Council, in accepting any grant, state that upon conclusion of the grant they are prepared to (a) pick up the service out of City revenues or (b) discontinue the program.*

*A substantial portion of the City's total income now comes from grants, federal revenue sharing being a prime example. Acceptance of many grants required that*

*the City gear up for a costly program, yet there is no guarantee as to how long the funds will be forthcoming. Even today, the future of federal revenue sharing is being hotly debated in Washington. When a grant is terminated, the City is faced with a difficult choice in continuing the program from its own resources, or attempting to close it down over the vociferous objections of those who have been beneficiaries. The decision as to which course of action will be followed should be made before the grant is accepted, not after the program has become an expected part of on-going city services. Furthermore, citizens should be made aware of the extent of the City's dependence on grants, through complete explanation in the budget and summary.*

7. *The Committee recommends the establishment of a strong Department of Finance, reporting to the Mayor; the Committee endorses the report of the Mayor's Ad Hoc Committee on the City's Disbursement-Security Procedures, issued in May, 1975; the Committee further recommends the present cash receipts and disbursements audit be expanded to a full outside annual audit of the financial position of the City.*

*Effective organization, by itself, does not insure good government. A well organized government may get into trouble; a poorly organized one may function satisfactorily. Nonetheless, chances of success are greater when organizational structure is sound. One way to help avoid a New York situation would be to establish a strong Department of Finance, with authority and responsibility to maintain good fiscal health. The Department should be responsible for all accounting functions and for revenue projections, together with budget preparation, implementation and follow through. The Department should also have responsibility for the fiscal aspects of grant application, acceptance and accounting. At the present time, independent departments of the City have complete financial audits, but the general funds are subject only to a cash receipts and disbursements audit. We recommend that this be expanded to a full outside annual audit of the City's financial position.*

8. *The Committee recommends the following:*

   a) *Repeal the requirement in Section 425 of the City Charter calling for payment of prevailing wages.*
   b) *Adopt instead a policy emphasizing a "total compensation" approach to negotiations with employees. This would call for inclusion of such benefits as holidays, pensions, vacations, medical insurance, work week, retirement age and years of service.*
   c) *Employ an independent agency to make a comparative survey of "total compensation" each year, the results of which would be made available to both sides and the public.*
   d) *Incorporate employee productivity as one of the factors to be considered in the comparison survey and at the bargaining table.*

*High wages, poor productivity, short work weeks, and excessive pension benefits for New York City employees are frequently cited as contributing causes for that City's problems. Los Angeles negotiates with its employees on the basis of a charter provision calling for "prevailing wages" but there is much controversy surrounding the issue. Although the City has commenced the study of productivity the concept has not been introduced at the bargaining table.*

9. *The Committee recommends the Mayor and City Council jointly establish a commission to review the City's organization with a view to recommending clearer lines of authority and responsibility and eliminating the joint control over some functions now in existence.*

*The City has an unusual organizational structure, with some responsibilities divided between the Mayor, City Council and a number of commissions. Under these circumstances, it is difficult to assign responsibility. Clearer lines of authority, together with elimination of joint control and reporting, would clarify responsibility, simplify and improve adminstration and reduce duplication.*

10. *The Committee strongly hopes that no increase in taxes will prove necessary. In the event that an increase becomes absolutely unavoidable, and only in that context, the Committee suggests consideration be given to the list of possible additional sources of revenue listed in the body of the report.*

*Committee members are convinced that the hard-headed management and a more discerning look at services provided could provide substantial savings. Committee members hope that savings thus generated will be sufficient*

*to bring expenditures into line with revenues. Should the elected officials determine there is no possible way to avoid a tax increase, the Committee offers some general guidelines to be considered, and a list of possible sources of additional revenue, briefly described, in the body of the report. However, the Committee warns once again that raising taxes will only aggravate the problems which Los Angeles already faces in driving business and people from the city.*

*__NOTE__*

*Committee member Ricardo Icaza does not endorse Recommendations 4. and 8.*

## *STUDIES AND FINDINGS*

### *What Happened in New York*

*For the Committee to determine whether or not Los Angeles might be following New York along the path to financial chaos, it was first necessary to study those factors which led to New York's dilemma. Writing in New York Magazine, Ken Auletta sums it up this way:*

> *"If the principal actors who have guided our city's destiny these last several decades - Wagner, Rockefeller, Beame, Lindsay - seem the chief villains in this piece, it must be remembered that they could not have accomplished all they did without a supporting cast of state legislators, borough presidents, City Council members, and city comptrollers.*
>
> *"Add to this list promiscuous bankers, voracious labor leaders and their members and - by no means least - the press, because it was too preoccupied with gossip, too lazy, or assumed its readers were too dumb or too bored to bother with detail. Finally, there is the press's audience, the public, which all too often lived down to the press's low expectation."*

*New York City optimistically and unrealistically overestimated its revenue estimates and presented to the public an apparently balanced budget. When actual revenues*

*failed to measure up to the unrealistic estimates, the State Legislature passed a law permitting the city to borrow the difference. The city did not tighten its fiscal belt the following year, but added another round of unrealistic estimates, followed again by shortfalls and borrowing.*

*New York has had, for years, rent control. Because rents were held to artificially low levels, thousands of landlords found it uneconomic to maintain their properties and innumerable rental units fell into disrepair. Finally, landlords declined to pay taxes, and eventually abandoned the properties. Meanwhile, the city unrealistically treated the unpaid revenues as due and payable, and borrowed against their eventual forthcoming. In many cases, the taxes will never be collected, and the city will have no alternative but to foreclose and raze the property.*

*As in most cities, New York had the right to schedule capital outlays and to borrow against their construction in the money markets. Normally this is done*

*through the issuance of long term obligations, but when interest rates were high, city officials elected to issue short term obligations in the hope that, at renewal time, rates would be more favorable for long term debt. In addition, the city classified as capital expenditures many items which are more properly considered operating costs. For example, textbooks have a three year life, and the decision was made to consider them as capital outlays and to borrow against their purchase.*

*Thus the city borrowed in the short term money markets to cover operating deficits and, also, to cover capital outlay expenditures. Even more important, city officials were unwilling, or unable, to raise taxes to a level adequate to cover expenditures. Finally, lenders could see little or no prospect of the city repaying its debts, and declined to advance further funds. With a staggering amount of short term debt maturing, the threat of bankruptcy ensued.*

*New York City employees are strongly unionized and, often under threat of strike, city officials found it*

expedient to grant generous wage increases and extravagant pension supplements. Much of the labor unrest was timed to coincide with city elections and incumbent officials succumbed readily to employee demands to insure labor peace. As one example, New York City employees retire on pensions based on the last full year of service earnings, including overtime. Cooperating supervisors made it possible for employees, in their final year, to log inordinate amounts of overtime. This grossly inflated the last year's earnings and elevated their pensions.

New York City also functions as a county, and was thus forced to carry many of the burdens that Los Angeles City shares with the more populous and geographically larger Los Angeles County. In addition, New York City paid for such expensive services as tuition-free higher education (with costs over $600 million compared to $42 million fifteen years ago!) subsidized housing for low and middle income groups, subsidized transit with fares far below cost, subsidized health facilities with costs in the range of $800 per person on welfare and a 25% hospital vacancy.

*Taxing to pay for benefits such as these drove rates prohibitively upward. The more mobile upper and middle income families tended to flee the city, further eroding the tax base and requiring even higher levies on the reduced base remaining.*

*New York functions as a major port of entry for the United States, and annually into the city pour thousands of immigrants. Many of them are poor, unskilled, and uneducated, and a substantial portion settle in the city, adding increased health, welfare and police burdens to an already overburdened metropolis.*

*Many of New York's problems were brought about by actions of the federal government and state legislature, over which the city had no control. But a host of the troubles can be laid squarely on the door-step of city officials. Deliberately inaccurate revenue estimates, misleading accounting, fiscal gimmickry, unwise policies - the hope that tomorrow, somehow, would offer a solution that today did not - and the over-riding desire to gain re-election, at whatever the cost.*

*Could it Happen in Los Angeles?*

*The study of New York is useful here to determine whether or not Los Angeles is following - or is likely to follow - any of the Eastern City's disastrous practices. Since many of New York's problems were brought about by actions of elected officials, and since municipal officials are elected at frequent intervals, no one can say with certainty what practices as-yet-unelected Los Angeles officials will follow. It is possible, however, to study the past as an indication of the future, and to ascertain whether or not there are straws in the wind which might portend future difficulties.*

*In 1973, the Advisory Commission on Intergovernmental Relations (ACIR) issued a report which identified several "warning signs" to help cities determine potential fiscal problems. The commission stated that "the most important single factor in throwing a city into financial crisis is its inability to pay off short term loans that accumulate over a period of several years." Other significant warning signs include (a) sudden or substantial*

*decline in assessed valuation, (b) a pattern of current expenditures exceeding current revenue beyond small amounts over several years, (c) a negative cash balance in the operating fund, and (d) unsound debt reduction practices which substantially increase interest rates.*

*Some critics have noted that, by the time a city experiences one or more of these conditions, it is already in trouble; the danger is no longer "potential". Others have cautioned that a drop in assessed valuation is highly unlikely in a time of high inflation.*

*Nevertheless, on each of the above criteria, based on experience over a period of years, Los Angeles makes a favorable showing. For 10 years, the City has incurred no short term debt, but has tided itself over "dry periods" by borrowing internally from the reserve fund or unexpended bond funds. The liens are considered senior, and are repaid by December 10 of each year.*

*The City has had a rise in assessed valuation in 10 years from $5.8 billion to $9.5 billion, and there has never been a year with diminished assessed valuation.*

*There has been no pattern of current expenditures exceeding current revenues.*

*The City has had a positive cash balance in the operating fund in recent years of no less than $35 million. In 1975, the figure was $64.5 million.*

*The City's long term debt is low. In addition, Los Angeles follows the conservative financial practice, in retiring its debt, of making equal principal payments. The more common, and less conservative, method is to make equal total payments, in which the early payments consist largely of interest. Equal principal payments more nearly equate borrowing to the life of the capital improvement.*

*The Disturbing Signs*

*All of these criteria indicate a sound well-financed city as of now, and it would be understandable if elected officials and interested citizens faced the future with lack of apprehension. There are, however, a number of disturbing signs immediately ahead.*

*One was brought to the attention of city officials*

*by the Chief Administrative Officer of the City in a report of the City's financial outlook, dated October 24, 1973. In his report to the Council, the CAO stated:*

> *The perspective for the future is influenced by trends developed in the recent past. In recent years the City, finding revenues from existing sources insufficient to fund budget appropriations fully, has frequently budgeted Reserve Fund transfers and a revenue item entitled 'New Revenue Sources' to close the gap. The chronic insufficiency of current revenues to meet increasing appropriations is due to the fact that appropriations have been increasing at a rate of about 11% per year compared to a natural growth rate in revenue yields of only about 4%.*
>
> *The CAO's report went on to say:*
>
> *We have projected appropriations on two alternative bases: (A) Assuming a continuation of the trends since 1968-69, and (B) assuming a lower set of appropriations, held at 5% below the Alternative A number. On either basis, significant appropriation/revenue gaps (deficits) would develop in the absence of any significant windfall of new sources of revenue. These gaps would be in the general order of magnitude of the following amounts, the differences between the diverging trends of revenues and appropriations.*

*Alternative Revenue Gap Projection*
(million dollars)

| Fiscal Year | Present appropriation trend continues (Alternative A) | Appropriation trend is reduced by 5% (Alternative B) |
|---|---|---|
| 1976-77 | 69 | 36 |
| 1977-78 | 111 | 74 |
| 1978-79 | 131 | 93 |

In both instances the projections assume no new taxes nor increases in existing tax rates, and do not take into account Reserve Fund transfers which will serve to some degree to narrow the revenue gap... "a sharp departure from existing trends would be required in order for future budgets to be financed by foreseeable revenue."

## Los Angeles - A Mature City or an Aging City?

Like most of the large cities in America, Los Angeles is now mature. Office and retail buildings in the core city, once the pride of the populace, are now obsolete. Often they are empty, or rents are so depressed that the value of the buildings, and taxes resulting therefrom, are greatly reduced. Many face only the wreckers, to give way to parking lots. Grand old residences become rooming houses, homes for the poor, the uneducated, the unskilled,

*the unemployed. Property values decline and the need for additional police, fire, health and welfare services rises.*

*Once the aging process begins for a city, it is difficult to reverse. This is because many of the forces which contribute to aging are not local but nation-wide in scope. Interregional population shifts, suburban residential trends, reduced demands for specialized products and increased production costs at particular places may all reinforce one another in molding the aging city. The capacity of a city government to counteract the cumulative effect of these forces is limited. Increasing the city's services in order to make it more attractive also increases the cost of government which runs counter to making the city more attractive.*

*Generally, the larger and more stable a city is, the higher will be its capital cost for municipal services. Aging cities are large cities - with over half a million people - but not all large cities are aging.*

*These aging cities tend to lose population to their own suburbs and to other urban areas. They are not likely to attract new people, particularly those with sophisticated job skills, high levels of educational attainment, and expanding earnings potential.*

*Aging cities confront declining employment opportunities because job losses through business relocation are not replaced by new enterprises. Also, their economic base tends to consist of the nation's slow-growing rather than dynamic industries. The costs of doing business and costs of living are high in these cities, not only because aging plants and equipment and deteriorating public facilities constrain the improvement of productivity, but also because costs of energy and labor tend to be high. All these factors make aging cities less attractive places for families and businesses to locate; they also make it difficult for them to annex, or consolidate with, higher income surrounding areas.*

*The outlays of municipal government are high in aging cities. This is partly because public as well as*

*private sector productivity gains are difficult to achieve when facilities are becoming obsolete, crime and congestion are growing, and labor skills are not. But, also, municipal government costs are high because many municipal services cannot be easily reduced, even though the city's population falls off and its income grows only slowly. This in turn means that the number of city employees relative to the population is high; adding still more to municipal costs, wages of city employees tend to be higher and retirement benefits more generous.*

*Aging cities spend more on capital improvements than do growing cities. Even though these cities do not require expanded public facilities to accommodate an increasing population, heavy expenditures for maintenance and replacement are needed. Aging cities are required to spend relatively more for capital improvements, not so much to catch up with growing cities, but simply to avoid physical deterioration. This occurs under circumstances where the long term debt and interest payments on this debt are already high.*

In order to fund their higher expenditures, aging cities must raise more in local taxes. Property tax rates are higher, and these cities additionally tend to impose income or payroll taxes. Sales tax revenues, however, tend to be lower (because of less business being transacted) even though sales tax rates are not.

It is conceivable that all the fiscal restraint and responsibility which the city might exercise will not have much effect on the fundamental problems mentioned above; deterioration of the inner city, the changing nature of the city's population, high levels of unemployment (especially among minorities and the young), as well as other social problems which have contributed to rising costs for basic services.

The City must develop policies which will increase its attractiveness as a site for locating business and industry in order to expand its economic base. But even favorable city-wide policies will not necessarily improve the inner city. Given a favorable tax rate within the City, most businesses would

*probably prefer to locate outside the core, where crime rate is high and to which it is difficult to attract skilled workers.*

*As the economic gulf grows between the inner and outer city, the pressures for secession will intensify because people in the outer fringes will be shouldered with increasing tax burdens to pay for the inevitable higher costs of police and other services to the central city.*

*The City must work with representatives of the private sector, federal, state, and county government, and the school district to develop policies to increase access to employment for low income and minority residents. The City does not have the responsibility (or the resources) to solve the problems of the inner city single-handedly. However, it will certainly suffer the financial and social consequences if they are not solved. This is why it would seem not only prudent but essential that the City undertake some initiatives which contribute to their solution through joint efforts of the private and public sector.*

*The Budget is in Balance, But There Are Some Danger Signs*

The Los Angeles City budget is balanced for the current year, but the balancing was achieved through devices which cause concern. The City diverted a larger-than-normal portion of gas tax revenues from capital outlay to street maintenance. Also, the City utilized over two-thirds of the Reserve Fund to bring about a balanced budget. Although the City is self-insured, it does not maintain a cash reserve to handle adverse court decisions or contingent liabilities. Utilization of most of the Reserve Fund for budget balancing, therefore, leaves the City ill-prepared for unforeseen demands which may occur.

*The Mounting Costs of City Salaries and Pensions*

For generations in America it was unthinkable that civil servants would strike. Indeed, many laws were written making such action illegal. But government employees at all levels have become more militant and walk-outs, slowdowns, and rashes of sudden unexplained sickness are not now unknown despite the laws. Increasing militance is a factor at the bargaining table.

*There are many who attribute a substantial portion of the New York problem to excessive salary and pension demands of the employees, and to the unwillingness of elected officials to say 'No". In years in which it was difficult or impossible to meet salary demands, an increase in pension benefits seemed an easy way out. After all, costs would be met over a score or more of years, by as-yet-unelected officials.*

*Los Angeles City employees naturally compare themselves with those of Los Angeles County. At present, the County's basic benefit is 2.60% of final salary per year of service. In 1975, City employees won an increase to 2.16% of final salary per year of service, still behind the County. It is, however, substantially ahead of State employees, who receive a basic benefit of 2%. In addition, City employees earn their pensions based upon the final 12 months of service, which is substantially more generous than the State requirement based upon the final 36 months. In 1975, the City also agreed to pick up, for the 97% of the employees who accepted the proposal, 50% of employee*

contributions. The 3% who did not accept received a commensurate salary increase.

In fact, City employee pension benefits have been successively sweetened in March, 1973, January, 1974, May, 1974, May, 1975, and October, 1975. The increasing impact of pension and retirement costs is apparent in the following table:

| (In millions) | | | | |
|---|---|---|---|---|
| 1966 | 1970 | 1975 | | Current growth rate |
| 35.6 | 63.4 | 120.3 | Property tax levy for Pension & Retirement | 12% |
| 120.6 | 171.1 | 251.6 | Total property tax levy | 7% |

The important observation is that pension and retirement costs have been increasing at a substantial rate. Ten years ago they were just half of the total expenditures for general municipal government (which in itself has been increasing), and now they are greater. These expenditures will grow even higher because of likely increased growth rate. Since pension and retirement expenditures are becoming a major part of

*the total property tax levy, and since this levy is not subject to any limitation (as with that of general government), the total property tax levy will tend, in time, to approach the growth rate of pension and retirement costs.*

*A contributing factor to the increased pensions and retirement costs is the incidence of disability retirements. Disability retirements in the period 1969-1974 averaged 45 per year in the Fire and Police Plan and the New System combined. In 1975, disability retirements were at the rate of approximately 90 per year. The present value of each disability pension at the time of retirement is estimated to range from $100,000 to $250,000. The number of disabilities in the city employee retirement system has also increased. The cause of these increases is not clear, although it has been stated that recent court decisions have had an impact.*

*Some Sobering Trends in Population and Employment*

*The following table on population and employment shows the changes that have occurred between 1970 and 1975 at the State level, Los Angeles 5 County area (Los Angeles,*

Orange, Riverside, San Bernardino and Ventura Counties) and Los Angeles County (in thousands):

(In Thousands)

| | Total Population | | | Labor Force | | | Civilian Employment | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1970 | 1975 | % | 1970 | 1975 | % | 1970 | 1975 | % |
| Calif. | 20,026 | 21,113 | 5 | 8,129 | 9,429 | 16 | 7,540 | 8,504 | 13 |
| 5 County | 10,007 | 10,328 | 3 | 4,165 | 4,687 | 13 | 3,862 | 4,232 | 10 |
| LA County | 7,047 | 6,970(1) | | 3,039 | 3,224 | 6 | 2,817 | 2,907 | 3 |

The table reflects that the reduction in growth state-wide is even more pronounced in Los Angeles County. It also points out that the labor force is growing more rapidly than civilian employment and that the 'job base' itself is nearly flat.

The City of Los Angeles population appears to have stabilized at about 2.8 million. Between 1950 and 1970 the population nearly doubled; but between 1960 and 1970 the population increased by only 12 percent and remained essentially constant between 1970 and 1975, although a slight decrease in population actually occurred between 1970 and 1973. The newly released metropolitan area figures of the U. S. Bureau of the Census estimates a 1.6% drop between 1970 and 1974. Most population

*experts do not foresee any substantial increase above the 2.8 million level in the City for the balance of the decade.*

*The experience of practically every major city in the United States (particularly the older cities) is similar to that of Los Angeles. The following table shows the population data for 1970 and 1973 for the top ten cities in the country. Only three of the ten experienced growth in that three year period, while seven declined. Los Angeles' decline (65,000 people or 2.3%) is least severe of the top five cities, but is, nevertheless, sizeable.*

| City | 1973 | 1970 | Change | % |
|---|---|---|---|---|
| New York | 7,647,000 | 7,896,000 | -249,000 | -3.1 |
| Chicago | 3,173,000 | 3,369,000 | -196,000 | -5.8 |
| Los Angeles | 2,747,000 | 2,812,000 | - 65,000 | -2.3 |
| Philadelphia | 1,862,000 | 1,950,000 | - 88,000 | -4.5 |
| Detroit | 1,387,000 | 1,514,000 | -127,000 | -8.4 |
| Houston | 1,320,000 | 1,234,000 | + 86,000 | +7.0 |
| Baltimore | 878,000 | 906,000 | - 28,000 | -3.1 |
| Dallas | 816,000 | 844,000 | - 28,000 | -3.3 |
| San Diego | 759,000 | 697,000 | + 62,000 | +8.9 |
| San Antonio | 756,000 | 708,000 | + 48,000 | +6.8 |

*Source: U. S. Census Bureau*

*In addition to the lack of significant growth in population in the City of Los Angeles , the composition of the population is changing. The ethnic composition of the City's population has undergone significant shifts in recent years. Between 1960 and 1970, the white population of the City declined in absolute numbers and in percentage of the total population, from 73% in 1960 to 60% in 1970; the black population increased from 13% in 1960 to 17% in 1970 and the Spanish-American population increased from 10% to 18% in the decade. Other ethnic groups increased from about 4% to 5%. The Los Angeles Board of Education now projects a white minority student population by 1980.*

*The age composition of the City's population also has changed in recent years with an increased proportion of working age adults and elderly. The Los Angeles Unified School District projects a continuation of the District's decline in enrollment for the balance of this decade. For the years 1970-71 to 1974-75 the average annual decline was 1.6%. The forecast is for a 2%*

*decline per year through 1980. Such a trend is indicative of net out-migration of families. Population estimating in Los Angeles is complicated by the number of illegal aliens residing in the area and not included in the official population estimates.*

*Retail Sales and Personal Income are not Keeping Pace*

*The trend of retail sales in an area is indicative of its vitality and, indirectly, of its tax potential. Retail sales in the City grew from $6.1 billion in 1970 to an estimated $8.9 billion in 1975, a 46% increase. During the same period, retail sales grew by 64% state-wide and by 50% in Los Angeles County. Inflation in California over the past five years grew by 39%, as measured by the Consumer Price Index. Over a 15 year period, 1960 to 1975, retail sales at the City level grew by 102%, while growing at 142% and 203% at the County and State levels, respectively.*

*Aggregate personal income in Los Angeles in the last five years grew 37%, as contrasted to a rise in the Consumer Price Index of 39% and no net increase in*

*population. A sizeable percentage of the population required income supplements, with 10% of families below the poverty level in 1970 and the County of Los Angeles Public Social Services providing service to 800,000 to 900,000 citizens a year (of a County population of about 7 million) over the last several years. The changes composition of the population of the City in the past five years, and the more difficult economic environment, suggest that the problems are becoming increasingly severe.*

*<u>Taxes are Growing Faster than Tax Base</u>*

*The City's assessed property valuation has grown by 107% in the last 15 years. The assessed value of the City was $4.3 billion in 1960 and $9.5 billion in 1975. In the same period, property taxes increased about 195% from $85 million to $251 million. In the last five years, assessed valuation grew 24% while property tax revenues increased 47%. Despite increasing at a rate significantly greater than the growth in valuation, property taxes as a percentage of the City government's revenue declined from 39% in 1970 to about 32% in 1975. Other activity and*

*commerce-related city taxes have offset the decline in property taxes as a percent of total revenues.*

*Total City revenues have grown from almost $218 million in 1960 to approximately $750 million in 1975, an increase of 244%. In the last five years, the increase was 58% by comparison with increases of 24% in assessed valuation, 37% in personal income, 46% in retail sales and 39% in the Consumer Price Index.*

*The degree to which government expenditures have dramatically outstripped personal income, assessed valuation, retail sales, and particularly population, is clearly shown in the chart on page 47.*

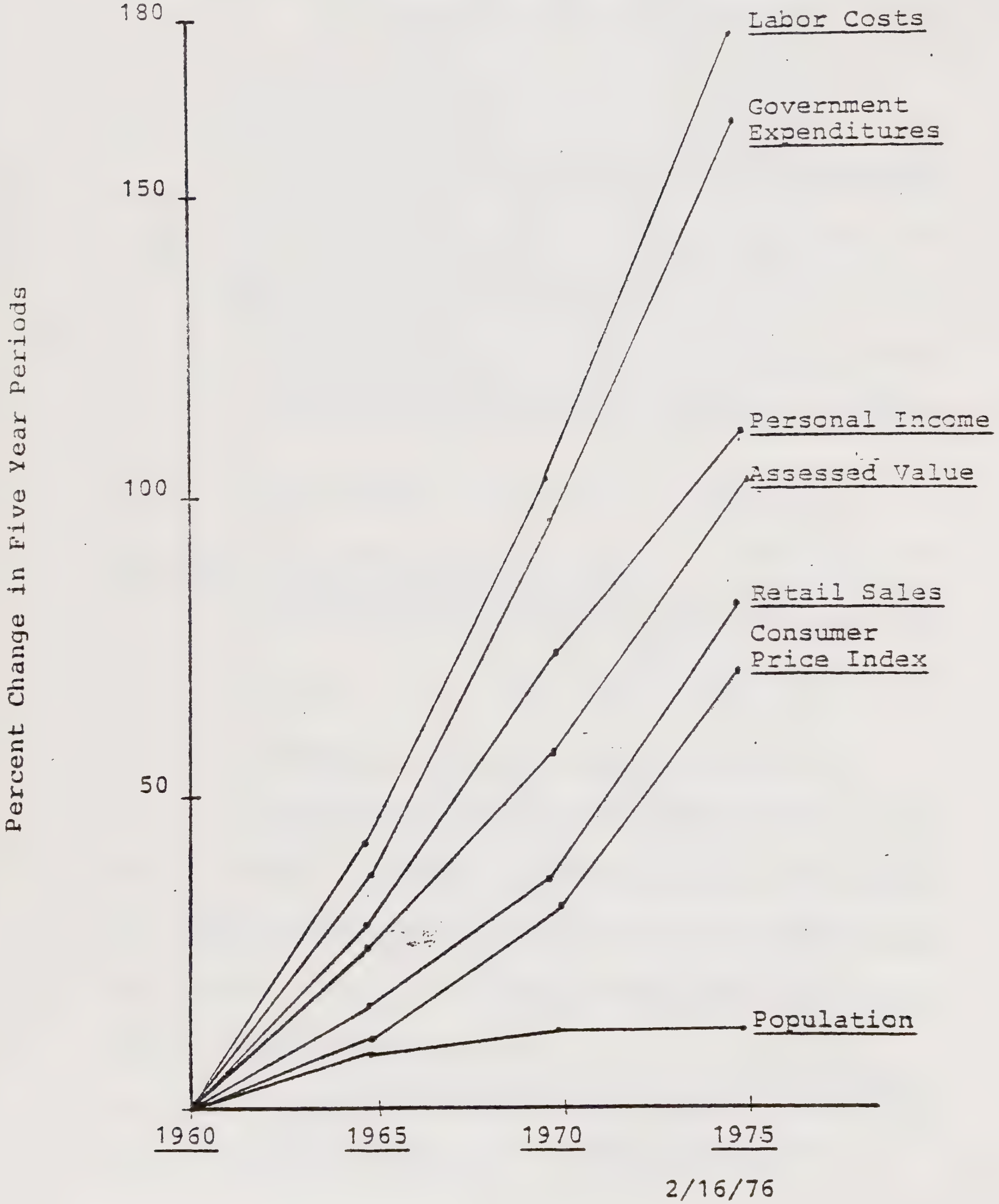
*Since Los Angeles is already considered by a large number of people to be a high tax location, this steadily increasing tariff on property and economic activity within the City can be expected to have a negative impact on further economic growth.*

*Businesses and Jobs May be Leaving the City*

*Nearly every member of the Committee was able*

Percent Change, City of Los Angeles

Population, Assessed Valuation, CPI, Retail Sales, Personal Income, Government Expenditures, Labor Costs




*1975 data are preliminary estimates.

*to furnish specific instances of businesses which had moved from Los Angeles City, or which had considered the City as a possible location but failed to move here. However, the Committee is cognizant that new businesses are being established in the City daily, and there is inadequate data upon which to base a definitive statement as to whether or not (or to what extent) the City is losing or failing to attract business and industry.*

*It is difficult to develop comprehensive data on the subject. However, enough pieces of information are available to raise concerns. The absence of more complete data may in itself be indicative of less than adequate concern for the problem. The information available (including data from local utilities) suggests that Los Angeles City is experiencing a greater loss of business firms through relocation outside the City than major cities in the country as a whole. During the course of this study, many examples were provided by service organizations, banks, real estate related firms and utilities, and by officers of corporations that have either moved out of the City or have decided not to*

*locate initially in Los Angeles. The reasons given were varied, but the prevailing opinion seems to be that a more supportive and dependable governmental environment for business exists in other communities and in unincorporated territories within the basin than in the City itself. When the steadily increasing cost and burden of doing business in Los Angeles appears to exceed the benefits and justify the expense and dislocation of moving out of the City, people, capital and businessmen will move - or they will not come in the first instance.*

*In addition, there is also sufficient information to indicate that the City and State have a reputation around the country as a difficult place in which to locate commercial and industrial activity. How widespread and valid this opinion is cannot be determined without considerably more study. However, the Committee is satisfied that it has a substantial basis in fact and is broadly held. Unless efforts are taken to correct the impression and the underlying causes, the effect is to either erode or impede the further growth of the City's economic base. Clearly, a more comprehensive study*

*is needed of the total Los Angeles environment before definitive conclusions can be presented.*

*Another serious problem brought to the attention of the Committee was the potential economic disruption stemming from the impending shortage of natural gas. While the demand for gas continues to rise, supply from existing sources is going into a serious decline. Without major new supplies, it is estimated that curtailment to customers will begin in 1979. It has been estimated that, if gas deliveries to small businesses and to industries which can't shift to alternate fuels were curtailed, it could mean a direct unemployment impact of 390,000 jobs and a total unemployment impact of 700,000 jobs. Conservation can accomplish only part of the solution; diligent work by all concerned to develop all acceptable energy sources is urgently needed.*

## CONCLUSIONS

*The foregoing discussion cautions that the population of the City is stable - or declining - that retail sales are growing at a lower rate than in the County*

*or the State, that the rise in aggregate personal income is not keeping pace with inflation, that property taxes are growing faster than assessed valuation, that business and jobs may be moving out, and that the population to be served is requiring increased levels of police, health and welfare services.*

*Accordingly, the Committee makes these recommendations:*

*1. Holding and Attracting Business, Jobs and the Tax Base.*

1. *The Committee recommends the enlargement and expansion of the Office of Economic Development, with appropriate staff; (a) to study in depth the net movement of people and jobs into and out of Los Angeles, and the reasons therefore; (b) to report on the long-term growth prospects of the City in such terms as jobs, population, transportation, income, ethnic mix, and education; (c) to work with representatives of the private sector, federal, state, and county government, and the school district to conserve and develop the physical resources and economic base of the City and increase access to employment for its residents.*

*As discussed in the Committee's studies and findings, answers to these and similar questions are crucial if elected*

*officials are to make informed decisions. The fact that much of this information is unavailable now is evidence in itself that decisions have been made in the past without adequate background.*

*2. Five Year Forecast*

> *The Committee urges the Mayor and City Council to direct to CAO to develop five year fiscal forecasts, as a basis for annual budget and program making. The forecasts must be more than simple projections of revenues and expenditures; they must anticipate the revenue base and service needs of the City from information developed in (1) above.*

*City officials cannot make meaningful decisions without a chart to guide them. Clear-cut forecasts will make possible the types of decisions which can mitigate the impact of unfavorable trends.*

*3. Concise, Easy-to-Understand Budget Supplement*

> *The Committee recommends a clear, concise budget supplement, with explanations of revenues, expenditures, deficits or surpluses, borrowings, five year forecasts and similar information be printed and made widely available to interested citizens.*

There has been no effort to hide from the public the state of the City's finances. Indeed, the Mayor devotes one full page of his eight page budget message to a description of the use of the Reserve Fund. But the budget is complex, bulky and hard to understand. The State and a number of cities throughout the country have done commendable work in printing budget summaries, often included as the first 25 or 30 pages of the budget and, also, reprinted in pamphlet form as handouts.

4. Productivity as a Part of the Pay Process

> The Committee recommends that intensive effort, over and above that presently being made, be undertaken to measure, and increase, productivity of City employees, and that productivity increases be made a consideration at the bargaining table when wage increases are negotiated.

There are now about 28,000 city employees, two-fifths of whom are police officers and fire fighters. Employment has increased by 8,500 since 1960, and half of this increase has taken place since 1970. The Police Department has accounted for 70% of the added employees since 1970, while general management (partly

*because of the federal emergency employment programs) has accounted for the remainder. Both civilian and sworn employment have increased by 40% since 1960, and 20% since 1970. The City employment has increased from 7.8 persons per thousand population in 1960 to 8.4 in 1970 and 10 in 1975.*

*While productivity of city employees is not easy to measure, neither is it impossible. Negotiations with government employees have come to resemble negotiations in the private sector, where productivity increases play a very real part in final settlements. The same situation must prevail in City negotiations.*

*The Mayor has recently introduced a hiring freeze, a device which usually causes department heads to re-think priorities and restudy workloads. The result can be a meaningful increase in output per employee.*

*5. Clarify Purpose and Use of the Reserve Fund.*

> *The Committee recommends the purpose and use of the Reserve Fund be defined and clarified, and that the Mayor and Council consider the advisability of establishing an appropriate*

*cash reserve or contingency fund to provide for such items as self insurance and contingent liabilities.*

*At present, the Reserve Fund serves a multitude of purposes. In it are deposited monies appropriated but unspent in previous fiscal years. From it, the City borrows during "dry periods" when expenditures temporarily outstrip revenues. Money from the Reserve Fund is also available to assist in balancing the budget in those years in which expenditures exceed revenues. This year, for example, over two-thirds of the Reserve Fund went for that purpose.*

*These uses may fully deplete the balance in the Fund. The City is self-insured and, thus, must stand ready to pay claims which, if the City purchased insurance, would be paid by the insurance carrier. There are other contingent liabilities which also could require the prompt payment of cash. For these reasons, it is recommended a cash fund be set up, to be drawn down as claims are made, and to be restored to its full amount by an appropriation in the budget of the following fiscal year.*

*6. A Careful Look at Grants*

> *The Committee recommends that the City tighten up on the application, acceptance and administration of grants; that the financial statements of the City and budget summary recommended in (3) above clearly show the City's reliance upon grants; and we further recommend that the Mayor and Council, in accepting any grant, state that upon conclusion of the grant, they are prepared to (a) pick up the service out of City revenues or (b) discontinue the program.*

*Federal and state grants have increased greatly in size over the past five years. The 1975-76 budget, for example, shows federal general revenue sharing for the City of over $40 million and this is only one of many grant programs in which the City participates. Together, they make up a very significant portion of the City's total revenue.*

*A number of significant present and potential problems exist with respect to grants. For example:*

*Uncertainties exist regarding the level of future funding which can be anticipated;*

*Grant programs involve many hidden costs or potential costs which are not readily discernible; and*

*Grant programs may impose upon the City unrealistic requirements or priorities.*

*7. A Stronger Managing of City Finances, and Outside Audits.*

> *The Committee recommends the establishment of a strong Department of Finance, reporting to the Mayor; the Committee endorses the report of the Mayor's Ad Hoc Committee on the City's Disbursement-Security Procedures, issued in May, 1975; the Committee further recommends the present cash receipts and disbursements audit be expanded to a full outside annual audit of the financial position of the City.*

*The City's financial management function is presently performed by many persons. The CAO advises the Mayor and the City Council on the condition, finances and future needs of the City. He provides direct assistance to the Mayor and Council in preparation of the annual budget, in administration of the budget, and managing various public service programs. He is also responsible for a number of other specific duties involving city finances.*

*The City Controller serves as the chief accounting and auditing official and exercises general supervision over all appropriation accounting. He also is responsible*

*for certain audit activities, for prescribing uniform accounting and reporting procedures, as well as for preparing revenue estimates for budgetary purposes. (It is interesting to note that his accounting records are maintained on the basis of twelve fiscal periods per year, while the budgetary controls established by the CAO at the departmental level require departments and agencies to report and account for expenditures by line-item and program on the basis of thirteen fiscal periods per year.)*

*The City Treasurer, an appointed official, manages the City's investment portfolio as well as other Charter defined functions.*

*Administration of many federal revenues--an important factor in financing and managing a number of programs--is vested in an organizational unit (Bureau of Grant Administration) reporting directly to the Council.*

*Responsibilities for financial planning, management, and control are thus fragmented among*

*the CAO, the elected Controller, Treasurer, City Council, and the operating departments. This fragmentation makes it extremely difficult for the City to properly plan, manage, and coordinate its financial resources on a day-to-day basis in conformance with what would be considered sound financial management practices in many other governmental agencies or most commercial or industrial enterprises.*

*While the present system of checks and balances has resulted in fiscal stability and conservatism in Los Angeles, certain organizational and system changes would enhance the City's ability to properly plan and manage its finances and exercise proper budgetary and expenditure control. These changes are critical at this time because of increasing costs and inflation, anticipated budget deficits, and because of the City's changing economic environment.*

*In its report issued in May, 1975, the Mayor's Ad Hoc Committee on the City's disbursement-security*

*procedures urged the creation of a unified Department of Finance headed by a qualified finance director as necessary to provide and maintain an adequate level of both internal control and fiscal accountability. The report further recommended the elimination of the elective position of City Controller. The Mayor has forwarded the recommendations to the Finance Committee of the City Council for consideration and action, and some public hearings have already been held. This Committee concurs in both findings of the report issued in May, 1975.*

*8. "Total Compensation" in the Bargaining Process.*

*The Committee recommends the following:*

- *a) Repeal the requirement in Section 425 of the City Charter calling for payment of prevailing wages.*
- *b) Adopt instead a policy emphasizing a "total compensation" approach to negotiations with employees. This would call for inclusion of such benefits as holidays, pensions, vacations, medical insurance, work week, retirement age and years of service.*
- *c) Employ an independent agency to make a comparative survey of "total compensation" each year, the results of which would be made available to both sides and the public.*

d) *Incorporate employee productivity as one of the facts to be considered in the comparison survey and at the bargaining table.*

*The Committee was furnished information that would indicate salaries of City employees in some instances are substantially above "prevailing rates". The Committee did not undertake a verification of the information.*

*Fringe benefits have become a substantial part of the total wage package, and must be considered when wage and pension benefits are discussed. Confidence of both parties in the facts from which bargaining proceeds is essential. Additionally, the public is entitled to know how its employees are paid in relationship to similar work in the private sector. Hiring of a mutually acceptable outside firm to make the comparability study, and giving both sides and the public access to the results, could do much to provide a fair basis on which to begin bargaining. "Prevailing wage" is meaningless if it treats solely with salary and ignores fringe benefits; the latter*

*can account for up to 25% of total compensation.*

### *9. Clearer Lines of Authority in City Organization*

> *The Committee recommends the Mayor and City Council jointly establish a commission to review the City's organization with a view to recommending clearer lines of authority and responsibility, and eliminating the joint control over some functions now in existence.*

*Good people can make even a poor organization work, and sometimes work surprisingly well. However, even the best personnel function more effectively when lines of authority and responsibility are clean and sharp. Dual reporting or joint control often causes costly duplication and confusion. Even worse, it can sometimes result in a stalemate, with an absence of action. The times ahead will call for maximum effectiveness from each City official, elected or appointed. A citizens commission, composed of citizens in whom both the Mayor and Council have trust, can recommend organizational changes which will permit every City official to function at his top efficiency, with a minimum of wasted effort, duplication and frustration.*

## 10. Prudent Use of Tax Powers

> *The Committee strongly hopes that no increase in taxes will prove necessary. In the event that an increase becomes absolutely unavoidable, and only in that context, the Committee suggests consideration be given to the list of possible additional sources of revenue listed in the body of the report.*

Should the City choose to enact new revenue measures, care should be taken that it recognizes both the benefit and ability-to-pay principles of taxation, where applicable, so as to result in a balances revenue program which avoids undue or excessive reliance on any one source. Further, such measures should be considered with reference to the following specific criteria or standards commonly associated with sound revenue systems:

a. The tax system should be compatible with such social value criteria as equity, convenience of taxpayer compliance, simplicity and predictability of incidence.

b. *The revenue system should be fiscally adequate, broadly based, stable in its yield, and balanced in its final incidence. These are the so-called "fiscal" criteria.*

c. *The revenue system should be administratively simple, economical to administer; the tax base and the tax-rate structure should be clearly defined.*

d. *The tax system should be devised to minimize adverse impacts on economic efficiency, productivity, and resource allocations.*

e. *The revenue system should produce minimal negative impact upon the levels of employment, income, output (real GNP) savings, investment and consumer spending.*

f. *The revenue system should reflect and sustain a high degree of taxpayer awareness concerning the real income sacrifices*

*inherent in the payment of taxes to government.*

g. *Changes in the revenue system should be responsive to taxpayer preferences.*

h. *Changes in the local revenue system should be conditioned by the manner in which existing federal, state and local tax burdens are distributed within the business-industrial and household sectors of the private economy.*

i. *The fiscal capabilities of the revenue system should be adaptable to cyclical and inflationary trends.*

j. *The tax system should have minimal adverse effects on financial markets.*

*With the foregoing in mind, the Committee considers the most viable options for new City revenues to be those outlined below. They are in two categories: Short-term options which can be implemented by the City without enabling legislation by higher governmental*

*authorities; and long-term options which would likely involve changes in present statutes governing municipal taxing power.*

*Short-term Options*

*An admissions tax on sports and other entertainment events. Such a tax is currently levied in neighboring cities (e.g., Inglewood and Arcadia) with no evidence that it has had a detrimental influence on attendance. Revenue from such a tax could be substantial, depending upon the extent of its application.*

*A sewer service charge. Such a tax is currently levied on commercial, industrial and governmental users of the City's sewage system in order to comply with State and Federal grant requirements. It could be extended to residential users with collections made by the Department of Water and Power through its regular billing system. Revenue yield would approximate $1.1 million per one cent charge on every 100 cubic feet of water.*

*A refuse collection fee. A monthly charge of $1.50 per single family residence and two-to-four family dwelling, plus a 75¢ per unit fee on multiple dwellings of five or more units could generate sufficient revenues to recover a significant portion of the approximately $29 million the City now spends annually on refuse collection.*

*Parking fees at City-owned facilities. A fee of 50¢ per vehicle for use of parking spaces at facilities such as the Zoo, Griffith Park Observatory, Greek Theater, and Ports of Call recreation and shopping complex could generate significant revenues for the City.*

*Recreation Fees. Imposition of fees for use of public tennis courts and increased fees for use of public golf courses, swimming pools, and municipal camps could help recover the substantial costs of providing these services.*

*Increased animal regulation fees. An across-the-board increase in these fees along the*

*following lines could generate about $1 million in additional revenue; an increase in dog licenses fees to $10 for unaltered dogs and $5 for altered dogs; an increase in animal shelter fees from $6 to $10; and an increase in the kennel boarding rate from $1 to $5 per day.*

*A <u>commerical parking lot tax</u>. A tax on the occupancy of parking lot spaces could be levied on the motorist with collection by the parking lot operator. The revenue yield would approximate $1.5 million per one percent of tax rate.*

*Although of moderate revenue impact, steps could be taken to apply the business tax uniformly on a gross receipts basis. Some enterprises currently are taxed at a flat rate, creating an inconsistency in the application of the tax.*

### *Long-term Options*

*Changes in legislation governing shared revenues are difficult to achieve and require a co-ordinated effort among all affected jurisdictions.*

*While such efforts are being undertaken through the auspices of the League of California Cities and other organizations, the prospects for immediate beneficial changes in currently shared revenues are not imminent. However, serious consideration should be given to sponsorship and promotion of legislation to accomplish the following:*

*Increase in automobile license fees.* *An increase in this fee by the State from the current 2% to 3% of market value would generate approximately $13 million in additional revenues for the City on an annual basis, with no additional collection costs involved.*

*Increase in cigarette tax.* *Assuming continuation of the current State apportionment formula, every 1¢ per package increase in the tax above the current 10¢ per package would generate about $1.3 million in additional revenue for the City. There has been no increase in this tax since 1967, and many states have much higher tax rates.*

*Little or no additional administrative costs would be involved.*

*State-Local Shared Income Tax. A fiscal arrangement by which the current state income tax rate would be increased by a given percentage and the proceeds returned to local entities on the basis of point of collection, residence population, occupation, or a combination thereof. The revenue yield of such a measure could be substantial.*

*Occupation Tax. A tax based upon a percentage of salaries, wages or commissions earned by every person, resident or non-resident, employed in the City. While it has the disadvantages of being cyclical and creating another incentive for businesses to locate outside the City, the advantages are substantial revenue yield, spread of government costs between commuters and residents, and ease of administration.*

*Alcoholic Beverage Tax. State legislation is required to authorize the City to levy an excise*

*tax on the purchase price of alcoholic beverages sold by retailers for consumption on the premises. A 5% tax would generate an estimated $8.5 million of revenue for the City. Previous City experience with such a tax indicated administrative costs would be reasonable, approximately $100,000 annually. The City has and should continue to pursue such legislation.*

*City Tax on Banks and Other Financial Institutions.* *A constitutional amendment would be necessary to permit the City to levy taxes on these institutions. Such action would enhance the equity of the local tax system, in addition to providing substantial revenue. It is estimated that if the City had the authority, applications of currently existing taxes to various operations would generate in excess of $5 million annually. The major areas of application of existing taxes are: (1) The 1% sales and use tax could be applied to certain operations; (2) the 5% utility users tax could be applied; (3) appropriate portions of the Business Tax Ordinance could be applied to such operations as*

*management of residential properties, activities as lessors of office buildings and other commercial buildings, sale of reclaimed automobiles and furniture, lending of money, escrow services, trust activities, and miscellaneous other activities.*